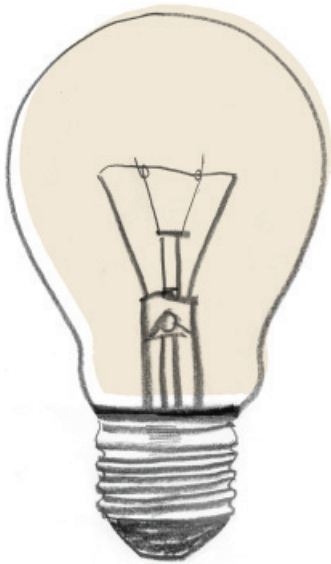


Supply Chain Solutions

Grant Thornton Consumer and Industrial Products practice Part 3 of 3

Supply chain priorities in the spotlight

A well-performing, efficient supply chain can provide the advantage companies need to survive and thrive in today's complex, fast-changing and competitive business environment. In the face of volatile demand, intensifying competition, growing consolidation and a spate of supplier insolvencies, supply chains are increasingly being viewed as critical to their organizations' current and future successes.



Yet effective supply chain management only grows more complicated over time, with new challenges and obstacles, as well as new opportunities, cropping up at every turn.

In order to better understand the leading concerns and priorities of today's manufacturers, distributors and retailers related to their supply chains, Grant Thornton's Consumer and Industrial Products practice has partnered with *World Trade Magazine* in a series of surveys about supply chain issues. This survey, the third of three *Supply Chain Solutions* surveys, set out to answer the following questions:

- What are the top supply chain management priorities?
- How important is a "green" supply chain, and what are companies doing about it?
- What are the key concerns of companies when selecting transportation and logistics providers?
- What changes are in store for modes of transportation in the next year?

continued>



Grant Thornton LLP collaborated with *World Trade Magazine* and the Institute for Supply Management to produce a series of three surveys concerning supply chain solutions. These surveys are intended to provide a snapshot of issues and opportunities in the supply chain industry. We hope this third survey, along with targeted recommendations from Grant Thornton's supply chain experts, offers you insights you can use as you evaluate your sourcing decisions.

WorldTrade
MAGAZINE

Supply chain priorities in the spotlight (continued)

Supply chain management objectives

Reduce costs across the supply chain	73%
Reduce internal costs	59%
Grow the business	40%
Improve customer relations	36%
Reduce internal inventory	34%
Reduce inventory across the supply chain	31%
Improve supplier relations	14%
Improve new product development	12%

Participants were able to choose more than one response.

What are the top supply chain management priorities?

Survey respondents look to their supply chain management with three principal objectives: To reduce spending across the supply chain (73%), to cut internal costs (59%), and to grow the business (40%). Other frequently cited objectives include improving customer relations (36%), reducing internal inventory (34%), and reducing inventory across the supply chain (31%).

“Using the supply chain to lower costs has long been important to our clients,” says Wally Gruenes, national managing partner of Grant Thornton’s Consumer and Industrial Products practice, “but increasingly, there is acknowledgement that effective supply chain management creates real value for the organization. This added value is typically realized by reducing inventory levels throughout the supply chain, which results in lower carrying costs and transportation charges to and from customers and vendors, up and down the supply chain,” says Gruenes.

Given the importance of the supply chain objectives, it is surprising that so few companies have a supply chain officer position. The likelihood that companies either currently employ a supply chain officer or are in the process of bringing one on board is in direct relation to their sales revenues. Nearly four in 10 (38%) companies with revenues between \$1 billion and \$5 billion have (or are in the process of hiring) a supply chain officer. By contrast, only six percent of companies with revenues between \$5 million and \$24 million have a supply chain officer.

Most companies (64%) look first and foremost to their industry associations as a source of information regarding supply chain management, strategies and best practices. Other frequently cited sources include print media (49%), seminars and conferences (49%), and the Internet (48%). Others look to trade shows (31%) and consultants (26%).

How important is a green supply chain, and what are manufacturers doing about it?

Many companies are clearly embracing green ideas, practices, products and packaging. Among manufacturers, concerns about the increased cost of energy, continuing dependence on foreign oil and the environmental impact of current energy use are motivating many manufacturers to elevate the concept of going green to the top of their agenda. Nine in 10 supply chain professionals report that their operations are becoming greener.

Consumers are also increasingly focused on the environmental impact of their consumption. Reduce, reuse, recycle — the three R’s of the green/sustainability movement — continue to influence customer behavior. Environmentally sensitive goods and practices win a growing share of customer dollars.

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Supply chain priorities in the spotlight (continued)

Among manufacturers that are going green, 85 percent report that their supply chain partners are helping them to get greener in at least one way. A variety of strategies are being employed, including:

- Increasing recyclability/reuse of packaging and shipping materials (56%)
- Increasing recyclability/reuse of products (55%)
- Reducing/eliminating paper and paper-based systems (53%)
- Reducing energy consumption (52%)
- Improving logistics/transportation to reduce fuel use (48%)

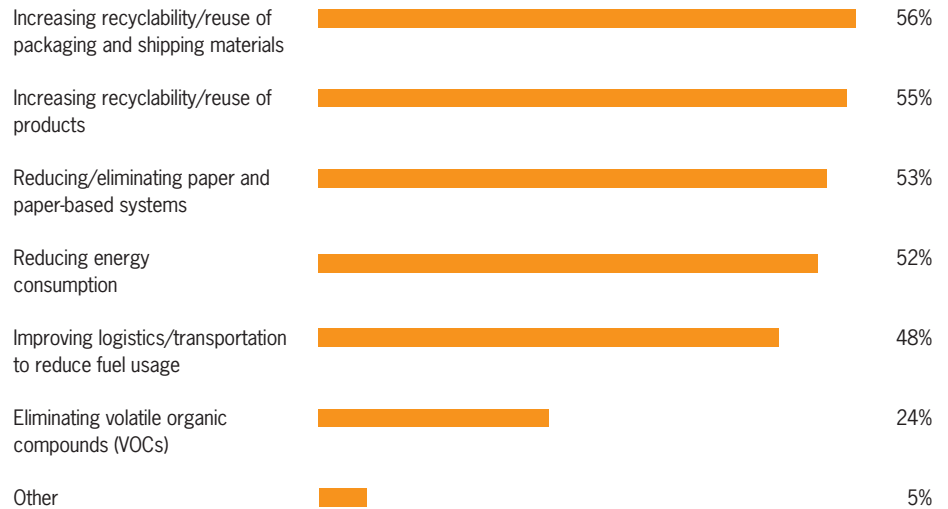
Recyclable products, packaging and shipping materials represent one of the strongest areas of focus among manufacturers greening their operations. In fact, nearly half (46%) of supply chain professionals report that a portion of their products (between one percent and 25 percent, by sales volume) are completely recyclable/reusable.

Almost nine in 10 (88%) supply chain professionals rely on at least one outside source for information on how to become greener. More than half (56%) look to their industry associations for guidance. Other common sources are the Internet (46%), print media (44%), the Environmental Protection Agency (42%) and the federal government (40%).

This green focus is also being encouraged by the government, which is using tax incentives to drive corporate behavior. Both federal and state governments are expanding tax credits, incentives and grant programs to help companies produce energy from renewable sources and to encourage manufacturers and distributors, among other businesses, to go green.

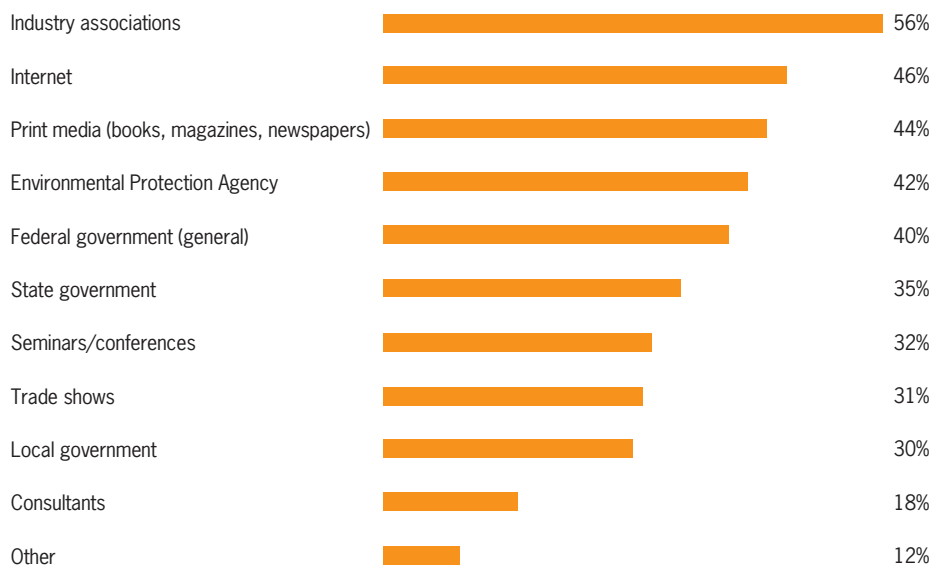
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Strategies for going green among manufacturers



Participants were able to choose more than one response.

Most common sources for information about becoming green



Participants were able to choose more than one response.

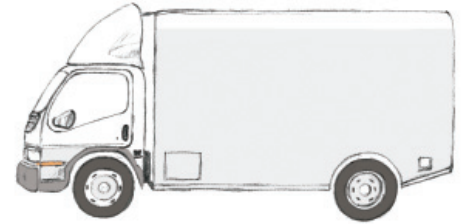
Supply chain priorities in the spotlight (continued)

“Federal legislation over the last several years has greatly expanded the universe of energy tax incentives available to manufacturers,” says Mel Schwarz, Grant Thornton Legislative Affairs partner. “Many of these provisions offer businesses added rewards for conservation and energy-efficiency efforts.”

A number of these credits and incentives are designed to foster sustainability programs in which companies use renewable energy sources to sustain their business operations. In many cases, companies can also take advantage of the energy tax incentives meant for consumers or the energy industry.

What are the key concerns of manufacturers when selecting transportation and logistics providers?

The overwhelming cost of owning and maintaining a fleet of transportation equipment leads many companies, especially smaller and mid-sized companies, to outsource some or all of their logistics functions to third-party logistics or transportation providers. Others outsource in order to achieve operational efficiencies within their supply chains or to concentrate on core business activities. These third-party logistics and transportation providers offer a range of services, including transportation, distribution, warehousing, materials handling and packaging.



Survey respondents have mixed levels of logistics outsourcing. Nearly half (47%) of the manufacturers surveyed outsource less than 25 percent of their logistics. Another one-third (33%) of respondents outsource between three-quarters and all of their logistics to third-party providers. Twenty percent of manufacturers report that they outsource more than 25 percent but less than 75 percent of their logistics.

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Manufacturers have several potential opportunities to enhance their bottom lines by going green.

Energy-efficient commercial business deductions (Section 179D)

Businesses that make renovations to reduce their power use can do more than save on their utility bills. They could also be entitled to a deduction of up to \$1.80 per square foot if new lighting, building envelope material, HVAC or hot water systems reduce their building's power use by 50 percent compared with a non-retrofitted building. Less drastic reductions in power use can still provide a \$0.60-per-square-foot deduction.

Business energy investment tax credits (Section 48)

Manufacturers that generate power for their own use can take advantage of tax credits for alternative energy property. A 30 percent credit is available for investments in fuel cells, small wind turbines, or solar property used for heating and cooling.

A lesser 10 percent credit is available for geothermal property, small combustion turbines, combined heat and power systems, ground or groundwater heating and cooling systems, and solar property used for lighting. The recently passed stimulus bill also allows businesses to apply to the IRS to take these credits as a grant.

Alternative vehicle credits (Sections 30B and 30D)

Businesses that want to update their fleets with increasingly fuel-efficient vehicles can choose from more than one credit. Section 30B provides up to \$2,400 for fuel cell, hybrid, lean burn and alternative-fuel vehicles. Section 30D offers up to \$7,500 for new plug-in hybrid vehicles or up to \$4,000 for a plug-in conversion.

Alternative refueling property credits (Section 30C)

Manufacturers with their own refueling systems can receive a 50 percent credit (30 percent for hydrogen) of up to \$50,000 (\$200,000 for hydrogen) for installing qualified clean-fuel vehicle refueling property to be used in a trade or business. Clean-burning fuels are at least 85 percent composed of ethanol, natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas or hydrogen — or any mixture of biodiesel and diesel fuel containing at least 20 percent biodiesel.

Qualified reuse and recycling property deductions (Section 168M)

Businesses are entitled to accelerated depreciation deductions for qualified reuse and recycling property. The accelerated deductions are equivalent to bonus depreciation, which allows taxpayers to deduct half of the cost of property in the year it is placed in service. Businesses can take the equivalent of bonus depreciation for qualified reuse and recycling property that otherwise would not qualify for bonus depreciation. Qualified reuse and recycling property is machinery or equipment that is used exclusively to collect, distribute or recycle qualified reuse and recyclable materials. It also includes any software necessary to operate such equipment.

Energy-efficient appliance credit (Section 45M)

Section 45M provides manufacturers of appliances a credit for the production of energy-efficient clothes washers (\$75–\$250), dishwashers (\$45–\$75) and refrigerators (\$50–\$200).

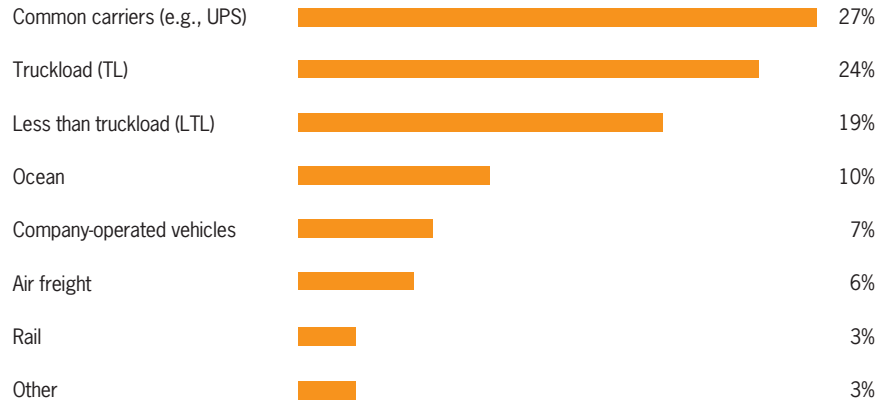
Supply chain priorities in the spotlight (continued)

According to our survey respondents, there are a number of important factors to consider when selecting a transportation provider. Atop the list is the provider's timeliness in delivery (93%). Equally important, particularly when problems do arise, is responsiveness (93%). Other important criteria include quality of service (90%) and, as always, price (86%). In contrast, having green/sustainability practices (22%) and having a Teamsters workforce (9%) are important to fewer manufacturers.

Selecting a transportation carrier and logistics provider is about forging beneficial relationships. "Manufacturers need access to transportation capacity at a fair price, but pricing is far from the only consideration," explains Randolph Smith, Grant Thornton's Transportation practice leader. "Fair pricing, service guarantees and quick assistance when you need it are critical elements."

Diminished volumes due to the economic downturn have left many providers with excess capacity, and competition for the limited business there is among transportation providers is fierce. "Many manufacturers are asking for price reductions — and getting them — from their carriers. But it's important to balance price negotiations with service-level guarantees on high-volume lanes," cautions Smith. "While you can always get a better deal, it's important to keep in mind the long-term relationship. When business rebounds, you have to live with your decisions, and compromising your relationship with your longstanding carrier to save a few dollars may not be the best decision for the long term. It takes a strong relationship to achieve delivery consistently on time," says Smith.

Common modes of transport for delivering goods



Participants were able to choose more than one response.

It also requires a transport provider that will be around for the long haul. "Some smaller trucking companies are cutting rates so low that their businesses are put in jeopardy," notes Mike D'Addio, Transportation practice executive director. "Manufacturers and distributors are taking a risk in that the transport company may go out of business and fail to deliver the freight. Bankruptcies among third-party transportation and logistics providers are slowing somewhat, but there are still lingering questions about provider viability," explains D'Addio.

Not surprisingly, manufacturers use a variety of channels for distributing and delivering their goods. The most common delivery mode is via parcel carriers, such as UPS or FedEx. Nearly three in 10 manufacturers (27%) use parcel carriers to deliver their goods. Nearly one-quarter (24%) deliver their goods via truckload carriers. Nineteen percent of manufacturers use less-than-truckload (LTL) carriers. Less frequently, manufacturers and distributors rely on ocean carriers (10%), company-operated vehicles (7%), air freight (6%) or rail (3%) to deliver their goods.

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Supply chain priorities in the spotlight (continued)

What changes are in store for modes of transportation in the next year?

Manufacturers and supply chain professionals do not expect significant changes in the relative proportion of various modes of transportation in the coming year. However, there are likely to be some shifts away from the more expensive modes, such as LTL and air freight. Nineteen percent predict they will decrease their use of LTL in the coming year, while 18 percent say they are likely to use less air freight transport.

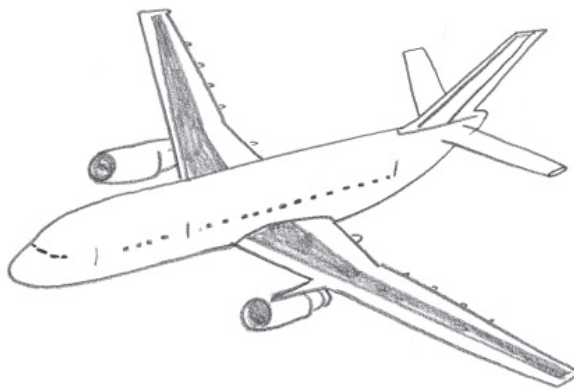
“These predicted declines are not particularly surprising, given the premium companies pay for LTL and air freight,” says D’Addio. “LTL adds tremendous labor costs to deliveries because of the frequent packing, sorting and repacking involved in delivering smaller loads of freight to various destinations. Manufacturers are looking to keep these costs to a minimum.”

Whereas an LTL company includes freight from several customers in each trailer, a truckload carrier typically contracts an entire trailer load to a single customer. Freight is never handled en route, unlike an LTL shipment, where freight is typically transported on several trailers and handled at various points in its transit, thereby incurring far greater labor costs.

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Looking ahead

Today’s manufacturers and distributors are focused on reducing costs across the supply chain and growing their businesses. At the same time, they are grappling with growing environmental/sustainability concerns, rising transportation prices and question marks about supplier reliability. It’s a more challenging job and business environment than ever, yet the time is now for manufacturers to focus on their priorities — and position their companies and supply chains both to ride out the downturn and to seize opportunities for profitability when the economy recovers. •



Contact information

Wally Gruenes

National Managing Partner
Consumer and Industrial Products
T 214.561.2640
E Wally.Gruenes@gt.com

Mike D’Addio

Transportation Practice Executive Director
T 312.602.8985
E Mike.D’Addio@gt.com

Randolph Smith

Transportation Practice Leader
T 704.632.6784
E Randolph.Smith@gt.com

Mel Schwarz

Legislative Affairs Partner
T 202.521.1564
E Mel.Schwarz@gt.com

About the survey

Grant Thornton partnered with Clear Seas Research, a subsidiary of BNP Media, to produce this original research about current and planned sourcing strategies. More than 200 responses from readers of *World Trade Magazine* and members of the Institute for Supply Management were gathered from May 5, 2009 through June 1, 2009.

About Grant Thornton’s supply chain advisory services

Grant Thornton provides a broad continuum of supply chain solutions: commodity planning, sourcing process evaluations, pricing reviews, technology solutions, supplier assessments, supplier action planning, risk response protocol analysis, inventory and asset management solutions, and consolidation and resource management.

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About World Trade Magazine

World Trade Magazine is a business-to-business logistics journal delivering news and information to U.S. subscribers active in domestic and international trade. *World Trade Magazine* covers every aspect of the global supply chain from the movement of products across the U.S. to the procurement from and delivery to international markets.

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